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#### **INTRODUCTION**

The Office of Internal Audit performed a review of the SDU contractor's quality assurance (QA) processes currently in place at the Michigan State Disbursement Unit (MiSDU), at request of MiSDU management. Objectives of our review were:

- 1. Determine if SDU contractor has established quality assurance procedures
- 2. Determine if SDU contractor is performing their quality assurance procedures
- 3. Provide opinion to SDU management as to the adequacy of SDU contractor's quality assurance processes and potential ways these processes could be improved to help meet the performance objectives as established in the contract.

This audit was limited in scope and nature and was conducted in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

### **SCOPE**

The scope of our review included obtaining and reviewing appropriate records and documents as we considered necessary to satisfy our objectives. We reviewed background information, policies, procedures, and business practices related to the current QA processes in place at the SDU. We met with and discussed the QA processes with contractor management of the SDU. We recorded the results of our review and discussed these results with State of Michigan SDU management. Audit work was performed primarily between May 9, 2005 and April 21, 2006.

# EXECUTIVE SUMMARY

In our opinion, the SDU contractor has established and is currently performing quality assurance procedures. However, we feel that the current processes could be strengthened

to help the SDU contractor enhance compliance with performance objectives as established in the contract.

### **AGENCY RESPONSE**

State Disbursement Unit management responded on July 26, 2006 that they were in agreement with both findings. The findings have been reviewed with the SDU contractor and corrective action has been implemented including reviewing and updating all quality assurance procedures (finding 1) and implementing a database to ensure that there is a permanent record of all customer support quality assurance documentation (finding 2).

### FINDINGS, COMMENTS AND RECOMMENDATIONS

We provided the following comments and recommendations that should be considered by SDU management to help strengthen the SDU contractor's QA processes.

# **Documented Policies and Procedures**

1. Contractor quality assurance policies and procedures, as currently documented, do not reflect the actual processes that are being performed.

During our review we noted the following QA policies and procedures that do not accurately describe the processes that are being followed:

# A. Payment Processing

- -Random Selection, Random Sampling, Error Determination/Error Entry
- B. Disbursements
  - Inserter and Spoilage QA, Random Print Quality Test, Random Tap Test
- C. Customer Support

-QA Procedures for Customer Support, CSR Calls Entry, QA Procedures for Updating an Address in MiCSES

# D. Banking

-Bank Adjustments QA Procedure

#### E. Research

-Pre Ten Day Research QA Procedure, Research QA Procedure, Research QA Procedure #2, Research Specialist Individual Report Procedure

In addition, several QA policy and procedure documents appear to be duplicates, are summary level documents only, or have not been implemented and are not planned to be implemented (e.g. Payment Processor Individual QA Report, QA Procedures for Lockbox, Disbursements QA Procedure, Disbursement Representative Individual Report Procedure, Print Technician Individual Report, Inventory Balancing QA, Bank Reconciliation QA Procedure). The contractor provided the State a complete update of policies and procedures on 3/28/06. However, the QA procedures noted above still do not appear to be current or have not been implemented.

The QA processes currently being followed by the SDU contractor appear to be adequate to help provide assurance that performance factors in the contract are being met. However, accurate, current, and documented polices and procedures would help to ensure consistency in the operation and would provide a documented reference to the current business processes being followed.

WE RECOMMEND that SDU management ensure that all SDU Contractor QA policies and procedures are brought up to date to reflect only the current processes being followed. SDU management should obtain copies of the updated QA policies and procedures.

#### Documentation to Support QA Testing as Reported

- The SDU contractor does not always maintain complete documentation to support the QA statistics reported to the State.
  - A. We reviewed documentation to support payment processing QA as reported by the contractor for ten days. On one of the ten days we reviewed, the contractor did not maintain the error record sheet to support the misapplied error as reported to the SDU management. Since the documentation was not available we were unable to determine if the error record sheets were filled out appropriately for that day. Also, on one of the ten days we reviewed, EFT batches had not been reviewed as part of the payment processing QA function.
  - B. We reviewed documentation to support Customer Support QA as reported by the contractor for eight days. The objective of the testing was to determine if individual CSR spreadsheets on file matched the number of calls that were reported to the State for the selected days and were completed appropriately. The contractor did not maintain appropriate documentation to support QA calls monitored and reported to the State for five of the eight days selected in our sample. The individual spreadsheets that were maintained appeared to be completed appropriately.

The QA function is in place to help the contractor process payments in an accurate and timely manner and to meet performance measures as defined in the contract with the State. Maintaining all documentation to support the QA statistics reported to the State helps to provide the State reasonable assurance that QA processes are in place and functioning adequately.

WE RECOMMEND that SDU management ensure that all documentation to support SDU Contractor QA statistics reported to the State is adequately maintained.